SOCIAL SECURITY STRATEGIES

Below are a few of the strategies that can used to make the most of Social Security benefit provisions.

- Defer Benefits: In the majority of cases it is beneficial for at least one spouse to defer benefits, preferably the one with the higher benefits. The benefits for deferral are great enough to hang on and let your benefits grow. If you don't need your benefits to live on, but take them anyway to invest them, you'll be hard pressed to beat the 8% return you'll get by letting them grow with Uncle Sam.
- Do the spousal split: A lower-earning spouse (call her Mary) retires at 62 and starts taking benefits. The higher-earning spouse (Harry) keeps working and defers his benefits as long as possible. If Harry dies, Marcia can stop collecting her benefits and start collecting his full benefit based on survivor benefits.
- Take advantage of spousal benefits: Harry defers his own benefit but files for a spousal benefit for his wife's lower benefit, as soon as he turns 66 (FRA). If Mary's benefit is $700, he'll get a check for $350 every month. Meanwhile, his own benefit will continue to rise by 8% a year until he's 70. At that point he can file for his own benefit and give up the spousal benefits. Mary can give up her benefit and apply for a spousal benefit based on Harry's history now. If Harry predeceases Marcia, upon Harry's death Mary will also receive the full amount of Harry's benefit amount as a survivor benefit.
- You can file and suspend: At 66, Harry can file for his own benefits but suspend them, allowing Mary (assuming she's also 66 - reached FRA) to take spousal benefits from his account, but leaving his own benefits to grow that 8 percent a year until he's 70.
- You can change your mind: Did you start taking benefits at 62, but regret it now? That may be the case if you've received a great job offer and longevity prognosis, for example. You can pay the Social Security Administration back all of the benefits you've received, withdraw your early retirement application, and then reapply for full benefits at age 66 or later. That does require you to have a big pile of money to repay those benefits, but it also means you'll have borrowed that money interest-free from the Social Security Administration for all of those years.
- Use different pools of money to live on when you retire: It's good to have some after-tax savings as well as 401(k) and IRA money, especially if your cost of living puts you near the level that would subject your Social Security benefits to taxation. You can draw (taxable) money out of your 401(k) or roll-over IRA, and use after-tax money from a Roth IRA or other savings to try to keep your income below those thresholds. You can start drawing down your tax-deferred accounts while you're holding off on your Social Security benefits.
- Do not claim while still working full-time: Because of policies regarding the taxation and withholding of Social Security, it is rarely beneficial to begin receiving social security benefits while still employed, especially prior to reaching FRA.
- Obtain a full 35 years of earnings history: The basis of determining ones benefit amount is based on the average of the highest 35 years of earnings on which you've paid Social Security payroll tax. As such, you may want to consider working longer if doing so would "significantly" increase your average 35 year earning history. This may the case for workers who had periods of no or low earnings during their employment history.
- Assess your current health and family longevity history: No one really knows how long they will live. But if your health is okay, you'll probably outlive the average person. If you're married and both in good health, the odds are even greater that you and/or your spouse outlives the average person. The cost could be quite high if you lose the bet and live "too long". Chances that one person in a married couple, both age 62, will live...